CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

Recommendations on Higher Education Policies in the Governor's Proposed 2005-06 State Budget

The Governor's proposed 2005-06 State Budget, and the Legislative Analyst's Office (LAO) recommendations on it, provide a number of policy options. If enacted, these options will directly impact California postsecondary education. This document summarizes positions adopted by the California Postsecondary Education Commission at its March 22, 2005 meeting on selected budget items affecting California higher education. Where appropriate, links to the Commission's website are provided to offer greater detail on its positions.

Governor's Budget	*LAO Position*	*Commission Recommended Positions*
Student Fee Related Issues		
Undergraduate student fee levels at UC and CSU. The Governor proposes that undergraduate UC and CSU systemwide student fees increase by 8 percent, generating an estimated $114 million in new UC fee revenues and $76 million in new CSU fee revenues. This proposal is consistent with the Governor's "Compact" with UC and CSU, that there be a three year average increase in these fees of 10 percent.	Recommends the Legislature adopt a "share-of-cost" fee policy that pegs resident student fee levels at a specified percentage of total educational cost.	The Commission recommends that the State adopt a long-term student fee policy consistent with its student fee policy recommendations issued in December 2002, and that student fee increases be limited to no more than 10 percent in any given academic year. The Commission's student fee policy recommendations can be found at: **http://www.cpec.ca.gov/completereports/2002reports/02-12.pdf.** In a related financial aid issue, the Commission recommends that the State develop a long-term policy concerning the set-aside of student fee revenues used for institutional grant aid.
CCC Resident Student Fees. The Governor proposes no changes in the current $26 per unit ($780 annually) fee.	Recommends increase in CCC resident fees to the level of $33 per unit ($990 annually), to generate an estimated $101 million in additional CCC fee revenues.	The Commission recommends that the State enact a long-term policy for setting and adjusting community college student fees, and until such a policy is enacted, that no further community college student fee increases should be imposed.
Accounting for Student Fee Revenues. The Governor proposes no changes to current practice of allowing the CSU and UC to spend new fee revenues based on their priorities.	Recommends that the Legislature account for the increase in fee revenues and allocate them on legislative priorities within the CSU's and UC's identified budget needs.	The Commission recommends that the annual State Budget Act specify the amount of student fee resources to be dedicated to institutional grant aid for financially needy students. The Legislature may wish to consider specifying the amount of student fee resources that each segment is expected to expend on student support services and instructional activities.

Governor's Budget	*LAO Position*	*Commission Recommended Positions*
Excess Units Fee. There is no Governor's budget proposal on this issue. The CSU and UC are developing polices that will require students who accumulate an excessive amount of units (more than 110 percent of that needed to obtain their degree) to pay the full cost of any additional units. This issue was aired during budget hearings last year but no legislative policy was adopted.	Recommends that the Legislature assume that additional revenues of $24.4 million at CSU and $1.1 million at UC will be generated due to "excess units fee" policies, and that the Legislature account for these additional revenues in making budget decisions.	In a May 2004 response to a request from Assemblymember Carol Liu, the Commission noted several concerns with this approach (**see Appendix A**) and suggested that it would not likely generate additional funds. The Commission recommends that the Legislature adopt the following Supplemental Report Language on this issue: *The California Postsecondary Education Commission (CPEC) shall review the policies of UC and CSU concerning student charges for excess units and make recommendations to the Legislature, Governor, and DOF on the impact of these polices on students*.
Enrollment Levels and Funding Accountability		
Enrollment Growth Funding. The Governor proposes to fund budgeted enrollment growth at the CSU and UC at 2.5 percent. The Governor proposes to fund enrollment growth at the community colleges at 3 percent.	Recommends the Legislature budget enrollment growth at the CSU and UC by 2 percent, based on its projections and that CCC enrollment growth be funded at 1.89 percent, the statutory rate, which is based on projected changes in adult population.	The Commission recommends that enrollment growth funding be provided based upon its model for projecting student demand. The Commission's model has been consistently reflective of actual enrollment demand over time, and estimates that Fall 2005 enrollment demand will slightly exceed 2005-06 budgeted enrollment demand for each public system.
Reporting on Enrollment Targets. The Governor proposes to fund enrollment growth in the CCC, the CSU, and UC as is shown above.	Recommends the Legislature adopt Budget Bill Language specifying the enrollment targets for CSU and UC.	The Commission supports requiring the systems to use enrollment growth funding provided in the budget strictly for student enrollment, and recommends that the CSU and UC report on the enrollment levels achieved using these funds.

Governor's Budget	*LAO Position*	*Commission Recommended Positions*
Marginal Cost Funding Rates for Enrollment Growth. The Governor proposes to fund enrollment growth at a State General Fund marginal cost rate of $6,270 for the CSU and $7,588 for UC. The "marginal cost" is an estimate of the additional cost each new FTE student brings, in terms of faculty and assistants, support services equipment, and other educational costs. This cost is lower than an "average" of enrollment costs across fund sources because it recognizes that some fixed costs don't necessarily increase with growth in enrolments. Both State General Funds and student fee revenues are used to cover the full amount of the marginal cost.	Recommends the Legislature reduce the proposed marginal cost funding rates to $5,999 at CSU and $7,108 at UC, per an earlier methodology. LAO also recommends the following Supplemental Report Language calling on the Legislature to reassess the current marginal cost methodology: *"The LAO shall convene the UC, the CSU, and the Department of Finance to review the components of the per full-time equivalent students (FTES) marginal cost calculation. The LAO, in consultation with the working group members, shall report on the working group's findings and recommend any proposed modifications to the marginal cost calculation in its Analysis of the 2006-07 Budget Bill."*	The Commission recommends that the marginal cost funding methodology be revisited. Given the Commission's role – both operationally and statutorily – in making recommendations on funding levels and policies, we recommend that CPEC be added to the working group called for in the LAO's Supplemental Report Language, as follows: *"The LAO shall convene the UC, the CSU, and the Department of Finance**, and CPEC,** to review the components of the per full-time equivalent students (FTES) marginal cost calculation. The LAO, in consultation with the working group members, shall report on the working group's findings and recommend any proposed modifications to the marginal cost calculation in its Analysis of the 2006-07 Budget Bill."*
Accountability. The Governor includes accountability components in his "Compact" with the CSU and UC. For the CCCs, the 2004-05 budget package included AB 1417, (Pacheco), which requires CCC Board of Governors to develop a workable plan to annually evaluate district-level performance in meeting statewide educational goals. The Governor's proposed budget restores $31.4 million vetoed last year, contingent upon development of this accountability mechanism.	Recommends the Legislature alter the provisional language proposed by the Governor, so that the Legislature will have a greater role in deciding how well the community colleges' accountability efforts are meeting State expectations and that $1 million of the $31.4 million be redirected to the California Partnership for Achieving Student Success (CalPASS) program. CalPASS is a data-sharing system aimed at improving the movement of students from high schools to community colleges to universities.	The Commission supports development of meaningful accountability measures for California higher education. While it supports the efforts of California's public higher education systems to develop appropriate accountability measures and reports like those required in AB 1417 for the California Community Colleges, the Commission recommends the development and implementation of a ***statewide*** accountability framework for California higher education. The Commission is working on developing such an accountability framework using both the Governor's Compact and previous legislation (SB 1331, Alpert) as the foundation. The Commission's recommended accountability framework can be found at: **www.cpec.ca.gov/Agendas/Agenda0503/Tab_06.pdf.**

Governor's Budget	*LAO Position*	*Commission Recommended Positions*
Student Financial Aid Policies		
The Maximum Cal Grant Award Amount for New Recipients Attending Non-Public Institutions. The Governor proposes to reduce the maximum Cal Grant for students attending private colleges and universities by $873, or 10 percent. This change would reduce the award from its current-year level of $8,322 to $7,449. The Governor's budget also proposes to use $35 million in Student Loan Operating Fund (SLOF) surplus monies to support the Cal Grant program, saving the State General Fund $35 million.	Recommends the Legislature statutorily link Cal Grant award levels for financially needy students attending non-public institutions to an enrollment weighted calculation of the State's General Fund subsidy for students attending the CSU and UC. This proposal is an update of a prior State policy of setting award levels for financially needy students attending non-public institutions to 75 percent of the average General Fund cost per student at the CSU. Under this new policy, the private university Cal Grant would be $10,568 in 2005-06, at an increased cost of $26.6 million. LAO recommends the planned use of SLOF surplus monies be increased by this $26.6 million to cover this additional cost.	The Commission supports enactment of a long-term policy for setting and adjusting the maximum Cal Grant award for students attending California's non-public colleges and universities and not having the award level determined annually via the budget process. The Commission's specific policy recommendations on this issue can be found at: **http://www.cpec.ca.gov/Agendas/Agenda0503/Tab_05.pdf**. The Commission also notes its concern about the continued use of the Student Loan Opportunity Fund (SLOF) to finance ongoing State student financial aid commitments. Continued use of this fund for these purposes may jeopardize the long-term health of the fund.

Appendix A: CPEC Summary on "Excess Units"

In May 2004, at the request of Assemblymember Carol Liu, CPEC analyzed the proposed "Excess Unit Fee Policy" that would limit the State's subsidy of undergraduate instruction at the CSU and UC to 110 percent of the credits required to obtain a baccalaureate degree. Students exceeding this limit would have to pay the "full cost" (undefined) for their continued enrollment. CPEC staff convened a workgroup, which included segmental representatives, to elicit comments and concerns regarding the proposed excess unit fee policy. CPEC supports the *intent* of the policy, which is to enhance efficiency by: (1) encouraging students to complete their degrees in a timelier manner; and (2) encouraging institutions to be more successful in assisting students to achieve their educational and degree goals.

CPEC had concerns that various types of students might be more likely to accumulate excess units than others. For example, CCC transfer students are more likely to accumulate excess units than university students who began as first-time freshmen; students in certain high-unit disciplines will accumulate more units than students in other fields because of the courses required to graduate. CPEC also feels strongly that advanced placement (AP) courses taken by high school students for which college credit is later awarded <u>should not</u> be included in any calculation of excess units, or these programs will be held against them later during their college enrollment.

One way to address these issues would be to focus the "excess units" policy only on credit units taken at the CSU or UC campus and only on those units that apply specifically towards the student's major. CPEC suggests that institutions develop strategies that would address specific student circumstances, in addition to developing more general strategies.

Over the long-term, this policy <u>could</u> make the two systems more cost-effective, as the annual number of baccalaureate degrees awarded increases, while the average number of units completed per degree decreases. However, the Commission questions whether any actual "savings" will be realized. More likely, efficiency-driven changes in students' course planning and enrollments would be offset by greater course demands from students. There is more *demand* than *supply* for many lower and upper-division courses required for majors and for graduation. Sections of these courses are often oversubscribed and have waiting lists. Assuming that students really do plan better and tighten up their course-taking practices, increases in the supply of course sections will free up spaces in those courses for other students who need them.

As such, **excess units policies are not likely to generate <u>verifiable</u> cost savings**, defined as changes in institutional behaviors – reductions in course sections, faculty not being hired or being redirected to other needs, etc. – that could be measured and accounted for. Further, students forced to pay "full cost" are far more likely to drop out of college than to remain enrolled and pay these additional costs. The potential consequences of these dropouts are serious enough to warrant further study by the CSU and the UC prior to the adoption of policies in this area.

In addition, both the CSU and the UC have developed initiatives that provide greater assistance to students pursuing undergraduate degrees. However, the Commission does not know how the systems are planning to evaluate these initiatives. CPEC recommends the CSU and UC develop evaluation plans for their excess unit policies that will monitor efficiencies in degree production and document the elimination of unintentional barriers to timely graduation that might limit student access to needed courses and support services.